

IB Economics: Market structures test

1: An important benefit of monopolistic competition is:

- A: concentration of market control in a single firm.
- B: satisfaction of different consumer preferences.
- C: uniformity in the production of all goods.
- D: low-cost, large-scale mass production.
- E: a benchmark for economic efficiency.

2: The market structure that tends to have the most intense competition is:

- A: oligopoly.
- B: monopoly.
- C: monopsony.
- D: perfect competition.
- E: monopolistic competition.

3: A market structure characterized by a large number of relatively small firms, each producing similar but not identical products, with relative freedom of entry and exit, and extensive knowledge of prices and technology is:

- A: monopoly.
- B: monopsony.
- C: perfect competition.
- D: monopolistic competition.
- E: oligopoly.

4: The real or perceived differences among similar goods that prompts buyers to pay different prices is termed:

- A: market penetration.
- B: resource utilization.
- C: product differentiation.
- D: abstract marginalization.
- E: productive equalization.

5: A firm with greater market control:

- A: can set any price and quantity that it wants.
- B: has more competitors in the market.
- C: is less efficient.
- D: is more likely to have a short-run supply curve.
- E: is more likely to face a perfectly elastic demand curve.

6: A market structure characterized by a single firm producing a unique product with no close substitutes, and strict limits on entry and exit is:

- A: monopoly.
- B: monopsony.
- C: perfect competition.
- D: monopolistic competition.
- E: oligopoly.

7: If Manny Mustard's House of Sandwich, a well-known monopolistically competitive firm, achieves market control by virtue of replacing the mayonnaise used by every other club sandwich producer with barbecue sauce, then it is primarily creating product differentiation through:

- A: physical differences.
- B: trade restrictions.
- C: support services.
- D: resource ownership.
- E: perceived differences.

8: If Feet-First Pharmaceutical, a well-known monopoly and the only producer of Amblathan-Plus (the only known cure for the foot ailment known as amblathanitis) achieves market control by virtue of a legal patent on the production of Amblathan-Plus, then they are primarily utilizing the entry barrier of:

- A: start-up cost.
- B: resource ownership.
- C: decreasing average cost.
- D: government authorization.
- E: international trade restrictions.

9: The three primary methods used by government to correct market control inefficiency in oligopolies and monopolies are:

- A: employment, stability, growth.
- B: monopoly, monopsony, oligopoly.
- C: factor markets, product markets, financial markets.
- D: marginal product, marginal cost, marginal revenue.
- E: antitrust laws, price regulation, public ownership.

10: One of two key issues in the analysis of market structures is:

- A: business-cycle contractions.
- B: efficient resource allocation.
- C: expansionary monetary policy.
- D: increasing marginal utility.
- E: inflation of the price level.

11: Firms in an industry with _____ product differentiation will tend to have _____ market control.

- A: greater, more
- B: no, complete
- C: complete, no
- D: limited, more
- E: minimal, extensive

12: The market structure considered the benchmark for economic efficiency is:

- A: oligopoly.
- B: monopoly.
- C: monopolistic competition.
- D: perfect competition.
- E: monopsony.

13: Advertising is primarily undertaken by firms to achieve market control through:

- A: entry barriers.
- B: trade restrictions.
- C: government authorization.
- D: product differentiation.
- E: resource ownership.

14: The configuration of an industry in terms of the number of competitors and competitiveness of each firm is termed:

- A: market structure.
- B: antitrust optimization.
- C: monopolistic competition.
- D: regulatory oversight.
- E: efficiency access.

15: If OmniMotors Car Company, a well-known firm in an oligopoly, achieves market control by virtue of taxes imposed on foreign imports, then they are primarily utilizing the entry barrier of:

- A: start-up cost.
- B: resource ownership.
- C: decreasing average cost.
- D: government authorization.
- E: international trade restrictions.

16: Antitrust laws are designed to:

- A: promote monopolization of a market.
- B: restrict the formation of legal partnerships.
- C: encourage government ownership of monopoly.
- D: prevent oligopolies from acting like a monopoly.
- E: regulate the prices charged by public utilities.

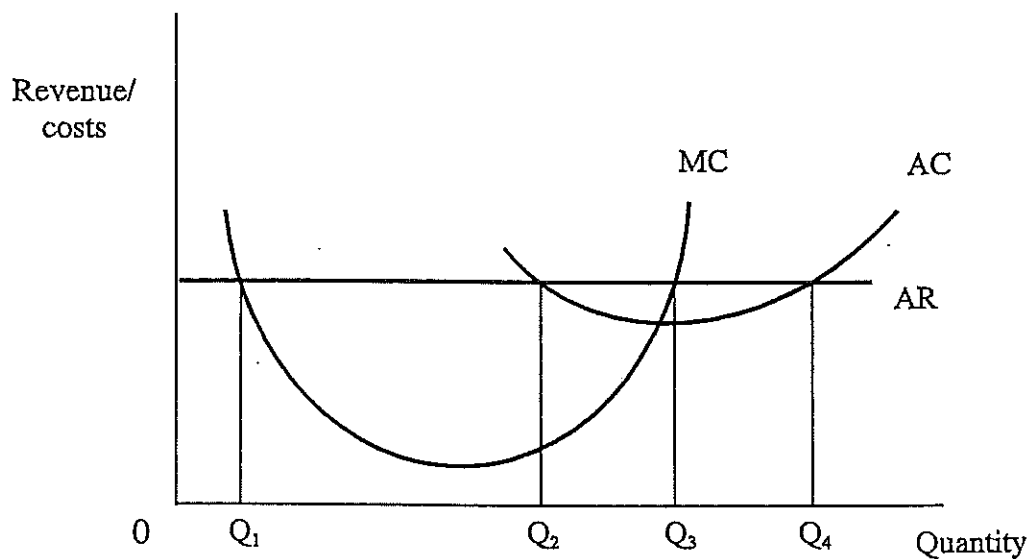
17: If I start a firm, such as growing potatoes in my backyard, that is so small that I will have no control over any aspect of the market, then I am bound to be a:

- A: monopoly provider.
- B: monopoly supplier.
- C: price quantifier
- D: price maker.
- E: price taker.

18: If my potato growing firm subsequently expands, which one of the following may **not** lead to lower average costs in the long run:

- A: Buying fertilizer in bulk
- B: Employing more workers to either dig or wash the potatoes
- C: Buying a tractor and plough
- D: Selling the potatoes individually
- E: Employing a finance manager

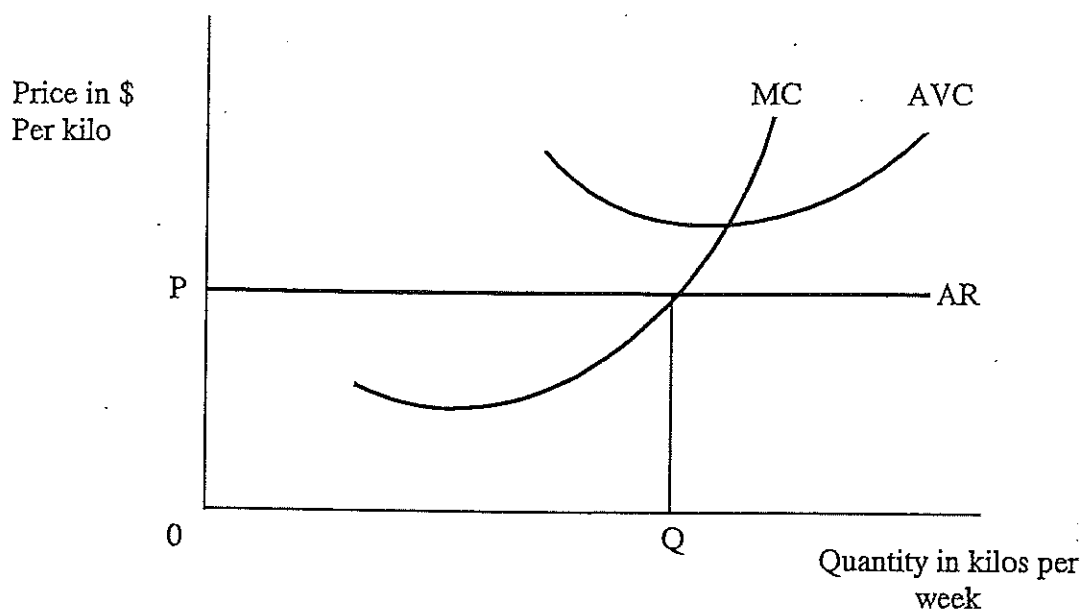
19. The diagram below shows the marginal cost, average revenue and average cost curves for a product.



The profit maximising level of output is

- A. $0Q_1$
- B. $0Q_2$
- C. $0Q_3$
- D. $0Q_4$

10. The diagram below indicates a firm operating in a perfectly competitive market.

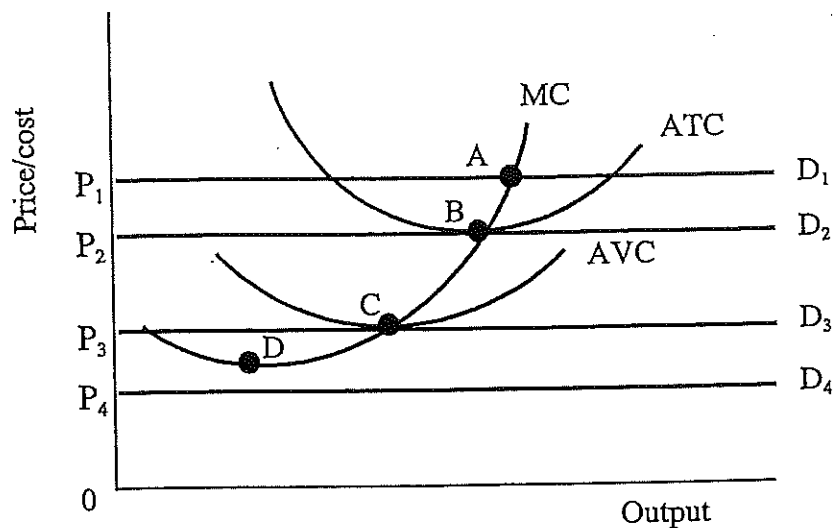


In this situation the firm should

- A. charge the price of P because this is the profit maximising price.
- B. charge a price which is higher than P.
- C. charge a price which is lower than P.
- D. stop production immediately.

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Questions 11 to 13 refer to the diagram. D_1 to D_4 are four different demand curves faced by a firm under conditions of perfect competition.



11. At which point is the firm earning normal profits?

- A. A B. B C. C D. D

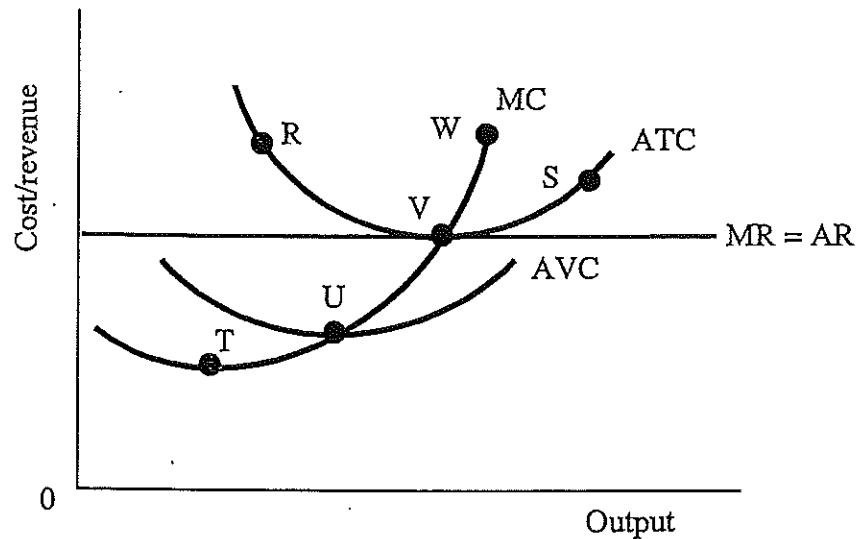
12. At which point is the firm earning abnormal profit?

- A. A B. B C. C D. D

13. Which is the firm's shut down point?

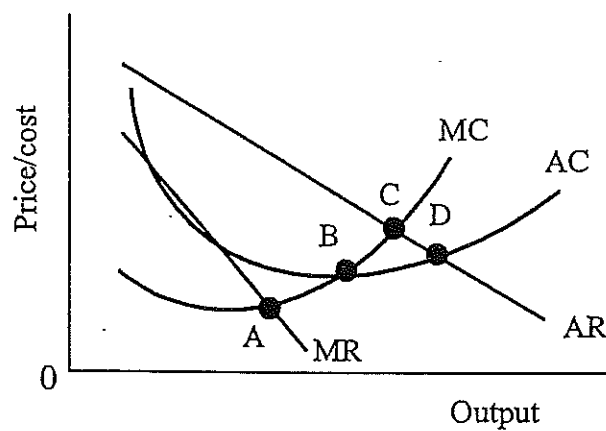
- A. A B. B C. C D. D

14. The diagram illustrates a firm in a perfectly competitive market. In the *short run*, the quantity of output which the firm will supply to the market at various prices is shown by



- A. the marginal cost curve between points V and W.
B. the marginal cost curve between points U and W.
C. the marginal cost between points T and W.
D. the average cost curve between points R and S.
15. A monopolist will maximize profits where
- A. average costs are lowest.
B. the highest price can be obtained.
C. price equals marginal cost.
D. marginal cost equals marginal revenue.

126. At which point in the diagram will a profit-maximizing monopolist produce?



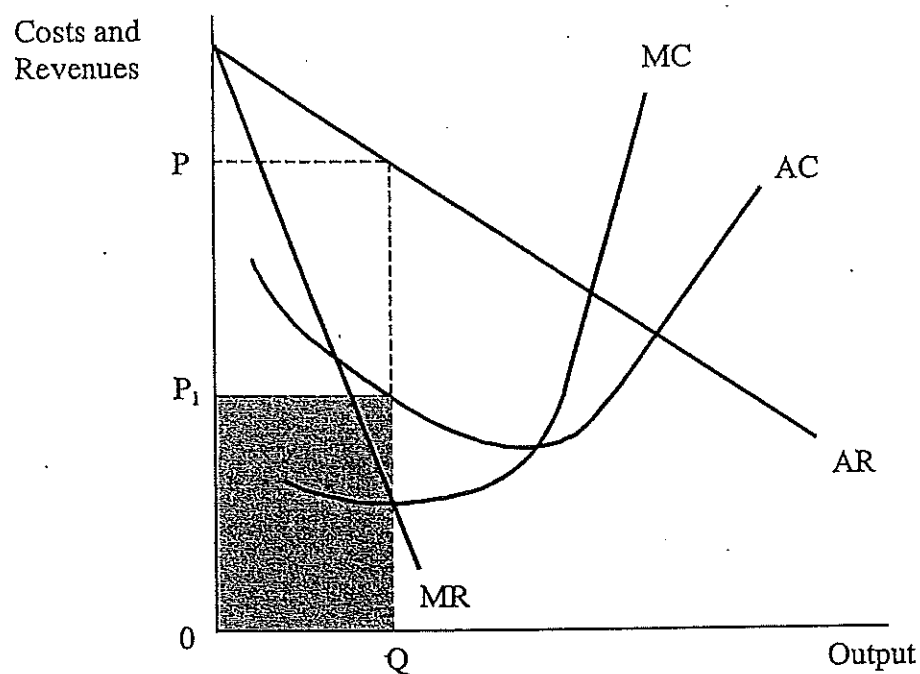
A. A

B. B

C. C

D. D

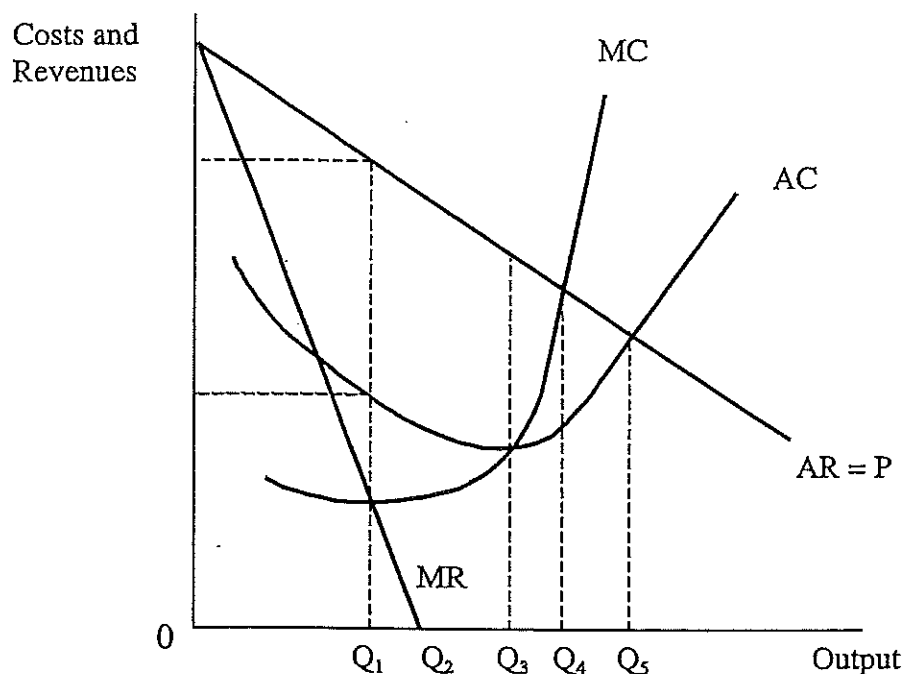
17. The diagram below shows the cost and revenue curves of a firm.



The shaded area of the diagram represents

- A. normal profits in imperfect competition.
- B. monopoly costs.
- C. oligopoly profits.
- D. abnormal profits

28. The diagram below shows the cost and revenue curves of a monopolist.

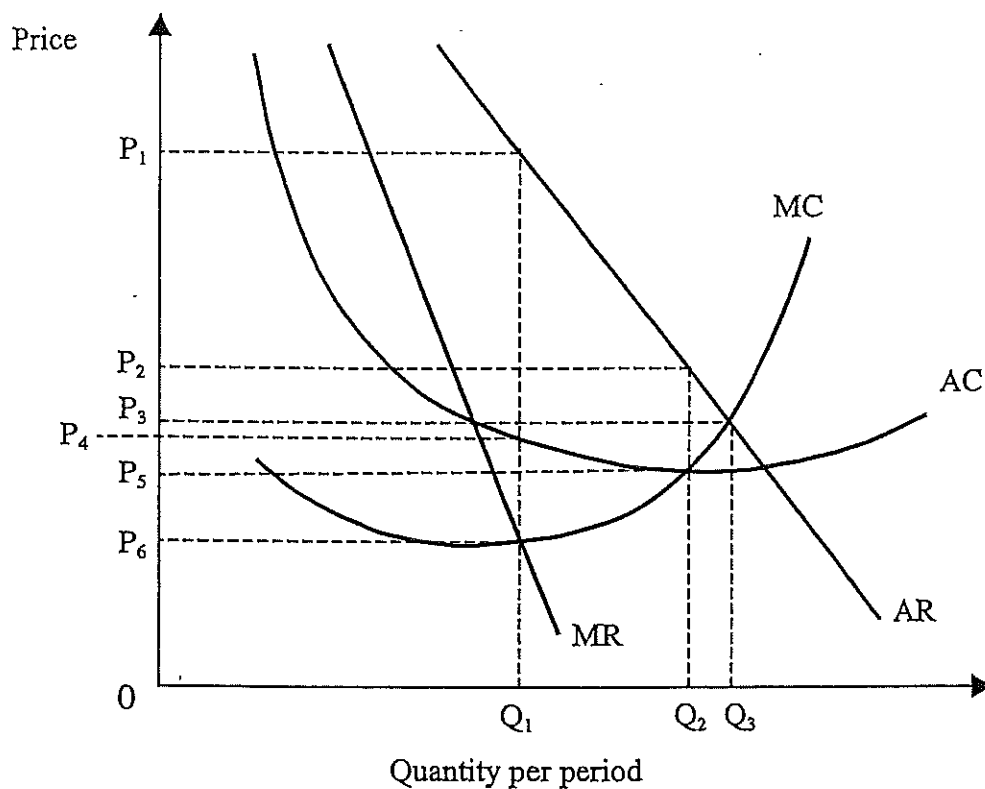


The objective of the firm changes from profit maximisation to sales revenue maximisation. As a result, the firm's output would change from

- A. $0Q_1$ to $0Q_2$. B. $0Q_1$ to $0Q_3$. C. $0Q_3$ to $0Q_4$. D. $0Q_4$ to $0Q_5$.

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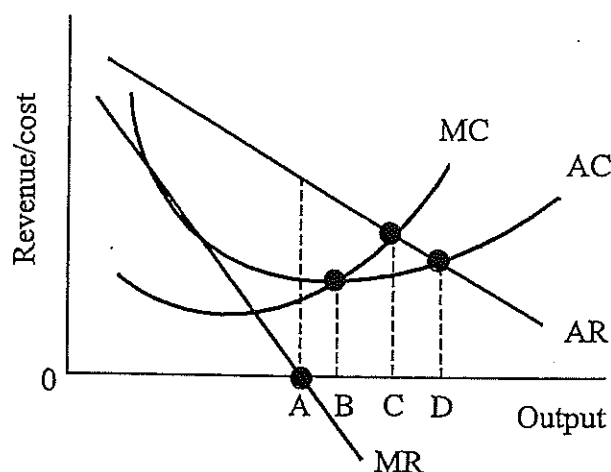
19. The diagram below represents a firm operating under conditions of monopoly.



The supernormal (economic) profits earned by this firm will be equal to $0Q_1$ multiplied by the difference between $0P_1$ and

- A. $0P_3$. B. $0P_4$ C. $0P_5$. D. $0P_6$.

20. In the diagram of a firm under monopoly conditions at which point is the elasticity of demand equal to one?



- A. A B. B C. C D. D

21. The data tabled below refers to a single-firm monopoly.

Output	Price per unit (\$)	Total cost (\$)
1	12	8
2	11	12
3	10	14
4	9	20
5	8	30
6	7	49
7	6	70

If the company aims to maximize its short-run profits how much profit does it make in total?

- A. £9. B. £10. C. £12. D. £16.

22. In which of the following market structures are high barriers to entry, non-price competition and branding typical characteristics?
- A. monopoly.
 - B. monopolistic competition.
 - C. oligopoly.
 - D. perfect competition.
23. Oligopolistic firms often compete in areas other than price because
- A. demand curves are likely to be inelastic in relation to a rise in price.
 - B. pricing decisions have no effect on other firms in the market.
 - C. demand curves are likely to be inelastic in relation to a fall in price.
 - D. marginal revenue is less than the market price.

Answer one question. Each question is worth 10 marks

1. Explain why prices tend to be quite stable in a non-collusive oligopoly.
2. Explain why cartel agreements in an oligopoly tend to be short-lived.